

Muthoot Finance

Estimate change



TP change



Rating change



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Bloomberg	MUTH IN
Equity Shares (m)	401
M.Cap.(INRb)/(USD\$)	567.3 / 7.8
52-Week Range (INR)	1439 / 884
1, 6, 12 Rel. Per (%)	16/6/4
12M Avg Val (INR M)	2870

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
NII	66.4	78.9	91.5
PPP	51.0	60.8	70.7
PAT	37.2	44.1	51.3
EPS (INR)	92.8	110.0	127.9
EPS Gr. (%)	23.3	18.6	16.3
BV/Sh.(INR)	380	471	577

Ratios

NIM (%)	13.7	13.6	13.7
C/I ratio (%)	25.9	25.4	25.1
RoA (%)	6.5	6.5	6.6
RoE (%)	27.8	25.9	24.4
Payout (%)	21.6	17.0	17.0

Valuations

P/E (x)	15.2	12.9	11.1
P/BV (x)	3.7	3.0	2.4
Div. Yld. (%)	1.4	1.3	1.5

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	73.4	73.4	73.4
DII	6.6	7.0	7.1
FII	16.0	15.1	14.4
Others	4.0	4.5	5.1
FII Includes depository receipts			

CMP: INR1,414
TP: INR1,725 (+22%)
Buy

AUM growth surprises positively

- PAT grew 22% YoY to INR10b in 4QFY21, in line with our estimate. Strong loan growth, despite falling gold prices, was the key surprise in 4QFY21.
- The company delivered 26% gold loan growth in FY21. NII/PPOP/PAT growth was also healthy at 15%/23%/23%. On account of the strong performance, we upgrade our FY22E/FY23E EPS estimate by 3-4%.

Growth in AUM surprised; spread compression modest

- Gold loan AUM grew 4% QoQ to INR526b (v/s our estimate of a 3% QoQ decline), driven by 3% growth in tonnage to 171MT.
- Spreads declined 50bp QoQ to 13.7%, led by 80bp compression in yields to 21.9%. Cost of funds (CoF) improved 30bp to 8.2%.
- The overall borrowing book as well as borrowing mix was largely stable. The company pruned liquidity to INR71b from INR96b. It would continue to maintain excess liquidity in the near term.
- Opex missed our expectations – total opex jumped 17% QoQ to INR5.16b, 10% higher than our estimate.

Highlights from the management commentary

- The management has guided at 15% AUM growth in FY22. However, Apr-May'21 were washout months as many branches were shut.
- It would like to open 100-150 branches annually (though in FY22 it may be lower).

Other highlights

- The GNPL ratio declined to 0.9% from 1.3% QoQ. ECL provisioning remains largely stable QoQ at 1.2% of loans. The company has excess provisions of INR3b (0.6% of loans).
- Tier I ratio remained stable at 26%.

Subsidiary performance

- Muthoot Homefin:** The book continues to run down – it declined 9% QoQ to INR17b. The GNPL ratio fell to 4% from 6.8% QoQ.
- Belstar Investment and Finance:** There was a sharp pick-up in business, with the loan book increasing 14% QoQ to INR33b. GNPL ratio increased to 2.4% from 0.7%. Total ECL provisioning is 3%.

Valuation and view

MUTH delivered a strong 4QFY21, especially on the growth front. Despite the 10-12% decline in gold prices, it managed to grow the loan book by 4% QoQ, which is encouraging. Even in the second COVID wave, loan demand is likely to remain high as customers' cash flows will be stressed. We expect the company to deliver ~15% loan growth in the medium term. With an AA+ rating, the cost of funds is likely to decline. This should mitigate yield pressure, if any. RoA/RoE is likely to remain robust at 6.5%/25% over the medium term. We increase our FY22E/23E EPS estimate by 3-4%. We maintain our Buy rating with a TP of INR1,725/share (3x FY23E BVPS).

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Quarterly performance

(INR m)

Y/E March	FY20				FY21				FY20	FY21	4QFY21E	Act. v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Income from operations	18,274	21,057	22,806	23,506	23,160	25,066	27,168	27,891	85,644	1,03,285	27,654	
Other operating income	294	312	399	497	691	768	480	348	1,502	2,287	690	
Total Operating income	18,568	21,369	23,206	24,004	23,851	25,834	27,649	28,239	87,146	1,05,572	28,344	0
YoY Growth (%)	13.8	29.5	35.2	27.7	28.4	20.9	19.1	17.6	26.7	21.1	18.1	
Other income	19	37	4	23	3	11	116	42	81	171	21	
Total Income	18,587	21,405	23,209	24,026	23,854	25,845	27,765	28,281	87,228	1,05,744	28,365	0
YoY Growth (%)	13.8	29.7	35.2	27.8	28.3	20.7	19.6	17.7	26.8	21.2	18.1	
Interest Expenses	6,416	6,699	7,094	7,700	8,715	9,241	9,455	9,513	27,909	36,924	9,688	-2
Net Income	12,171	14,707	16,115	16,326	15,139	16,603	18,309	18,768	59,319	68,819	18,678	0
Operating Expenses	3,972	3,969	4,542	5,304	3,738	4,496	4,410	5,160	17,787	17,804	4,698	10
Operating Profit	8,199	10,738	11,573	11,021	11,400	12,107	13,900	13,608	41,531	51,015	13,980	-3
YoY Growth (%)	8.2	43.6	47.6	35.3	39.0	12.7	20.1	23.5	33.8	22.8	26.8	
Provisions	33	265	612	48	146	107	585	111	957	950	536	
Profit before Tax	8,166	10,473	10,961	10,974	11,255	12,000	13,314	13,496	40,574	50,065	13,444	0
Tax Provisions	2,866	1,894	2,809	2,822	2,847	3,056	3,401	3,540	10,391	12,843	3,450	3
Net Profit	5,300	8,579	8,152	8,151	8,408	8,944	9,914	9,957	30,183	37,222	9,995	0
YoY Growth (%)	7.8	77.3	68.0	59.4	58.6	4.2	21.6	22.1	53.0	23.3	22.6	
Key Operating Parameters (%)												
Yield on loans (Cal.)	21.2	23.9	25.0	24.0	23.0	23.4	22.7	21.9				
Cost of funds (Cal.)	9.3	9.5	9.3	8.8	9.2	9.1	8.5	8.2				
Spreads (Cal.)	11.9	14.4	15.7	15.1	13.9	14.3	14.2	13.7				
NIMs (Cal.)	13.9	16.4	17.4	16.3	14.6	15.0	15.0	14.6				
Credit Cost	0.0	0.3	0.7	0.0	0.1	0.1	0.5	0.1				
Cost-to-Income Ratio	32.6	27.0	28.2	32.5	24.7	27.1	24.1	27.5				
Tax Rate	35.1	18.1	25.6	25.7	25.3	25.5	25.5	26.2				
Balance Sheet Parameters												
AUM (INR b)	358	357	385	416	413	470	504	526				
Change YoY (%)	15.5	10.6	18.6	21.5	15.3	31.6	30.9	26.5				
Gold loans (INR b)	352	349	377	408	405	462	497	519				
Change YoY (%)	15.1	9.1	18.7	21.4	15.1	32.3	31.7	27.4				
Gold Stock Holding (In tonne)	176	171	173	176	165	163	166	171				
Avg. gold loans per branch (INR m)	78	77	83	89	89	100	107	112				
Borrowings (INR b)	281	285	326	372	389	422	466	460				
Change YoY (%)	21.1	17.0	29.2	38.3	38.2	48.4	42.8	23.6				
Borrowings Mix (%)												
Listed secured NCDs	28.1	30.4	31.9	26.0	23.2	25.6	28.5	29.5				
Term loans	49.0	47.0	39.6	39.2	40.3	42.0	41.9	43.1				
Commercial Paper	17.1	17.2	14.1	9.7	12.7	11.2	10.6	8.4				
Others	5.8	5.4	4.5	4.8	4.4	3.7	3.2	3.2				
Debt/Equity (x)	2.9	2.6	2.7	2.9	2.6	2.7	2.8	2.7				
Asset Quality Parameters (%)												
GS 3 (INR m)	11,474	12,267	9,769	8,992	10,553	5,920	6,568	4,641				
Gross Stage 3 (% of Assets)	3.2	3.4	2.5	2.2	2.6	1.3	1.3	0.9				
Total Provisions (INR m)	8,095	8,213	8,377	8,381	8,492	8,590	9,162	9,211				
Return Ratios (%)												
RoAUM (Rep.)	6.1	9.6	8.8	8.1	8.1	8.1	8.1	7.7				
RoE (Rep.)	21.7	33.7	29.6	28.4	28.2	28.1	29.0	27.1				

E: MOFSL estimates



Highlights from the management commentary

Business updates

- LTV is currently at 66%. If, during a period, LTV crosses 75% due to a decline in gold prices, the company does not ask for top-up collateral.
- Apr-May'21 were washout months as many branches were shut.
- Accrued interest at the end of FY21 was INR21.45b.
- The management has guided at 15% AUM growth in FY22. It would like to open 100-150 branches annually (though in FY22 it may be lower).

Funding

- CRISIL/ICRA upgrades its long-term rating to AA+. CoF should decline going forward.
- The company will continue to maintain excess liquidity on its Balance Sheet.
- Public NCD issue cost was 6.6-7.1%.

Subsidiaries

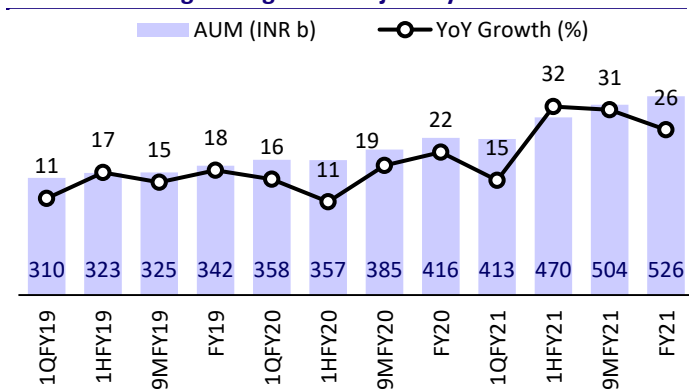
- Collection efficiency (CE) in MFI was 99% in Mar'21, but declined in Apr'21.
- CE in Muthoot Money was 97% in Mar'21.

Others

- The management said it doesn't opt for auctions immediately and gives more time to the customer to repay.
- INR1.7b worth of auctions in FY21 v/s ~INR5b/~INR10b in FY20/FY19.
- Hedging-related line items fall under 'OCI'.
- Around 50% of AUM would be more than INR100k ticket size.
- The management said it has no plans of infusing capital in its subsidiaries.

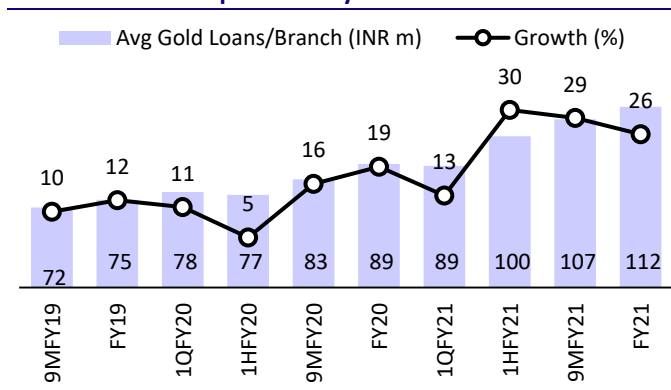
Key exhibits

Exhibit 1: Strong AUM growth trajectory



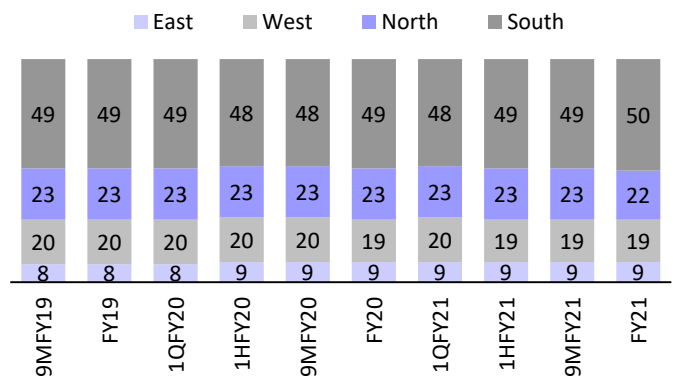
Source: MOFSL, Company

Exhibit 2: Trend in productivity



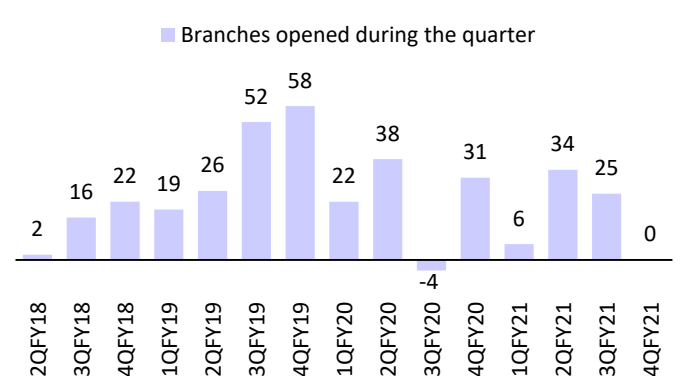
Source: MOFSL, Company

Exhibit 3: AUM mix (%)



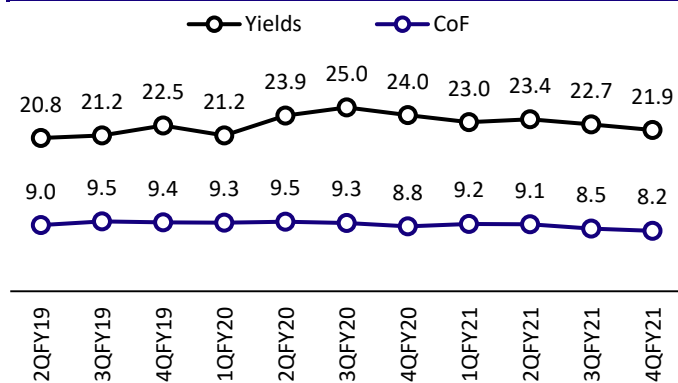
Source: MOFSL, Company, Gold loan portfolio mix

Exhibit 4: Branch expansion in 4QFY21



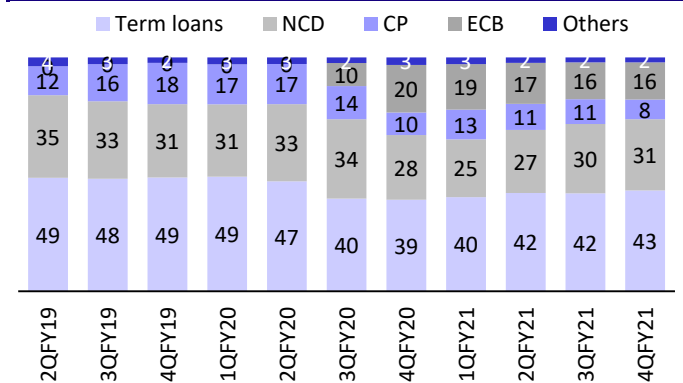
Source: MOFSL, Company

Exhibit 5: Spreads decline 50bp QoQ (%)



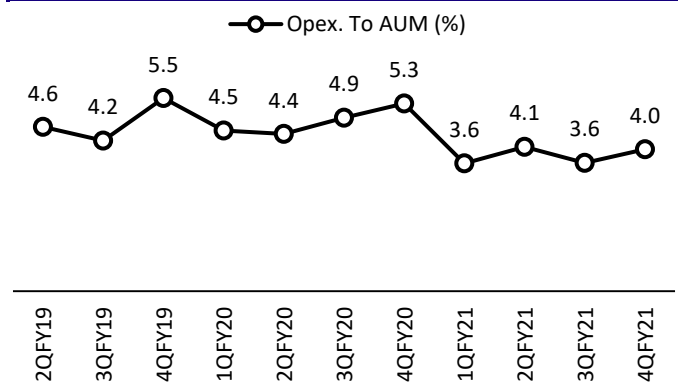
Source: MOFSL, Company

Exhibit 6: Borrowing mix stable (%)



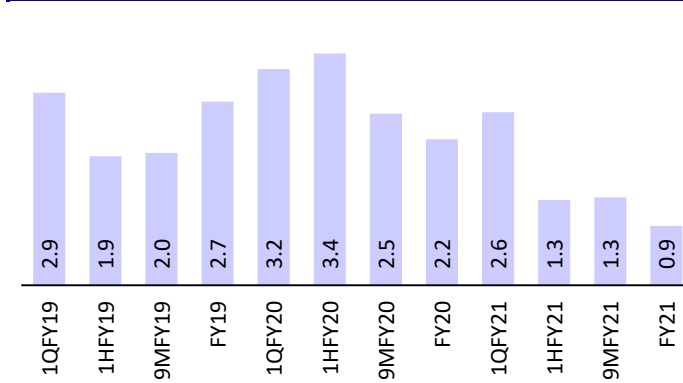
Source: MOFSL, Company

Exhibit 7: QoQ spike in the expense ratio



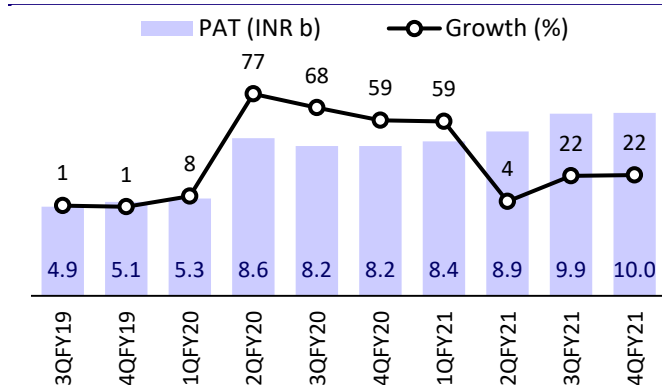
Source: MOFSL, Company

Exhibit 8: GNPA ratio improves (%)



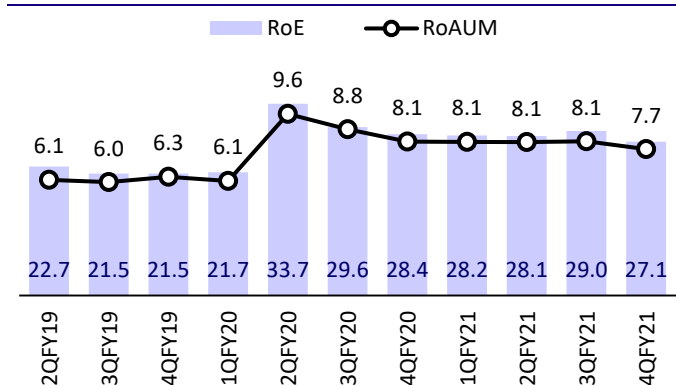
Source: MOFSL, Company

Exhibit 9: PAT grew 22% YoY



Source: MOFSL, Company

Exhibit 10: Strong profitability continues



Source: MOFSL, Company, Reported

Valuation and view

- MUTH delivered a strong 4QFY21, especially on the growth front. Despite the 10-12% decline in gold prices, it managed to grow the loan book by 4% QoQ, which is encouraging.
- Even in the second COVID wave, loan demand is likely to remain high as customers' cash flows will be stressed. We expect the company to deliver ~15% loan growth in the medium term.
- Positive ALM and adequate liquidity on the Balance Sheet have helped MUTH access debt capital with relative ease. With an AA+ rating, the cost of funds is likely to decline. This should mitigate yield pressure, if any.
- The subsidiaries had a difficult FY21, and FY22 is likely to be similar. However, the contribution of subsidiaries to consolidated PAT is modest.
- RoA/RoE is likely to remain robust at 6.5%/25% over the medium term. We increase our FY22E/23E EPS estimate by 3-4%. We maintain our Buy rating with a TP of INR1,725/share (3x FY23E BVPS).

Exhibit 11: Upgrade our EPS estimates by 3-4% to factor in stronger growth and lower opex

INR b	Old estimate		New estimate		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
NII	75.7	87.4	78.9	91.5	4.3	4.7
Other Income	3.2	3.6	2.6	2.9		
Net Income	78.8	91.0	81.5	94.5	3.4	3.8
Operating Expenses	20.1	22.5	20.7	23.7	2.7	5.3
Operating Profit	58.7	68.5	60.8	70.7	3.6	3.2
Provisions	1.5	1.7	1.5	1.7	-1.5	-1.5
PBT	57.2	66.8	59.4	69.0	3.8	3.3
Tax	14.6	17.0	15.2	17.7	4.4	4.0
PAT	42.6	49.8	44.1	51.3	3.5	3.1
Loans	563	648	622	715	10.3	10.3
Borrowings	451	498	510	561		
Spread (%)	12.8	12.7	12.2	12.0		
RoA (%)	7.0	7.1	6.5	6.6		
RoE (%)	26.3	25.0	25.9	24.4		

Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	56,369	62,021	67,570	85,644	1,03,285	1,19,142	1,37,014	1,57,566
Interest Expense	22,938	19,314	22,368	27,909	36,924	40,217	45,492	50,714
Net Interest Income	33,431	42,707	45,202	57,735	66,361	78,926	91,522	1,06,852
Change (%)	31.5	27.7	5.8	27.7	14.9	18.9	16.0	16.7
Other income	1,098	1,310	1,236	1,584	2,458	2,573	2,933	3,347
Net Income	34,529	44,017	46,438	59,319	68,819	81,498	94,455	1,10,199
Change (%)	31.9	27.5	5.5	27.7	16.0	18.4	15.9	16.7
Operating Expenses	12,503	13,174	15,394	17,787	17,804	20,667	23,739	27,269
Pre Provision Profit	22,026	30,843	31,044	41,531	51,015	60,832	70,716	82,930
Change (%)	48.9	40.0	0.6	33.8	22.8	19.2	16.2	17.3
Provisions	2,816	2,397	275	957	950	1,453	1,671	1,922
PBT	19,210	28,447	30,768	40,574	50,065	59,379	69,045	81,008
Tax	7,411	10,671	11,047	10,391	12,843	15,233	17,712	20,781
Tax Rate (%)	38.6	37.5	35.9	25.6	25.7	25.7	25.7	25.7
PAT	11,799	17,776	19,721	30,183	37,222	44,146	51,333	60,227
Change (%)	45.7	50.7	10.9	53.0	23.3	18.6	16.3	17.3
Proposed Dividend	2,397	4,010	4,812	6,016	8,024	7,505	8,727	10,239

Balance Sheet								(INR m)
Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	3,995	4,000	4,007	4,010	4,012	4,012	4,012	4,012
Reserves and Surplus	61,170	74,120	88,151	1,11,708	1,48,377	1,85,018	2,27,624	2,77,613
Net worth	65,164	78,120	92,158	1,15,718	1,52,389	1,89,030	2,31,636	2,81,625
Borrowings	2,09,855	2,11,670	2,68,332	3,71,300	4,59,463	5,09,614	5,60,775	6,32,490
Change (%)	13.0	0.9	26.8	38.4	23.7	10.9	10.0	12.8
Other liabilities	32,112	18,132	20,198	17,578	22,798	26,217	30,150	34,672
Change (%)	12.2	-43.5	11.4	-13.0	29.7	15.0	15.0	15.0
Total Liabilities	3,07,131	3,07,923	3,80,687	5,04,597	6,34,649	7,24,861	8,22,561	9,48,787
Loans	2,74,242	2,95,068	3,49,329	4,26,042	5,40,634	6,21,729	7,14,988	8,22,237
Change (%)	11.8	7.6	18.4	22.0	26.9	15.0	15.0	15.0
Investments	2,091	3,954	9,826	14,383	15,903	17,493	19,242	21,167
Net Fixed Assets	2,182	1,922	1,867	2,227	2,416	2,657	2,923	3,215
Other assets	28,615	6,978	19,666	61,944	75,697	82,982	85,407	1,02,168
Total Assets	3,07,131	3,07,923	3,80,687	5,04,597	6,34,649	7,24,861	8,22,561	9,48,787

E: MOFSL estimates

Financials and valuations

Ratios	(%)							
Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Spreads Analysis (%)								
Avg. Yield on loans	21.8	21.8	21.0	22.1	21.4	20.5	20.5	20.5
Avg. Cost of funds	11.6	9.2	9.3	8.7	8.9	8.3	8.5	8.5
Spreads on loans	10.2	12.7	11.7	13.4	12.5	12.2	12.0	12.0
NIMs on AUM	12.9	15.0	14.0	14.9	13.7	13.6	13.7	13.9
Profitability Ratios (%)								
RoE	19.4	24.8	23.2	29.0	27.8	25.9	24.4	23.5
RoA	4.1	5.8	5.7	6.8	6.5	6.5	6.6	6.8
Cost-to-Income	36.2	29.9	33.2	30.0	25.9	25.4	25.1	24.7
Empl. Cost/Op. Exps.	61.1	59.4	58.3	57.8	56.5	56.0	56.1	56.1
Asset-Liability Profile (%)								
GNPL ratio (%)	2.8	4.4	2.7	2.2	0.9	0.9	0.9	1.0
Debt/Equity (x)	3.2	2.7	2.9	3.2	3.0	2.7	2.4	2.2
Average leverage	3.3	2.9	2.8	3.1	3.1	2.8	2.5	2.3
Valuations								
Book Value (INR)	163.1	195.3	230.0	288.5	379.8	471.2	577.4	702.0
Price-to-BV (x)				4.9	3.7	3.0	2.4	2.0
EPS (INR)	29.5	44.4	49.2	75.3	92.8	110.0	127.9	150.1
EPS Growth (%)	45.6	50.4	10.8	52.9	23.3	18.6	16.3	17.3
Price-to-Earnings (x)				18.8	15.2	12.9	11.1	9.4
Dividend	6.0	10.0	12.0	15.0	20.0	18.7	21.8	25.5
Dividend Yield (%)				1.1	1.4	1.3	1.5	1.8

E: MOFSL estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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